

GMG COMMUNITY SCHOOL DISTRICT  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2007

# Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-13
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	14
Statement of Activities	B	15
Governmental Fund Financial Statements:		
Balance Sheet	C	16
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	17
Statement of Revenues, Expenditures and Changes in Fund Balances	E	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	19
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	20
Statement of Revenues, Expenses and Changes in Net Assets	H	21
Statement of Cash Flows	I	22
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	23
Notes to Basic Financial Statements		24-34
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		35
Notes to Required Supplementary Information - Budgetary Reporting		36
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	37
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	38
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	39
Schedule of Changes in Fiduciary Assets and Liabilities Agency Fund	4	40
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	5	41
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards		42-43
Schedule of Findings		44-48

GMG Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2006 election)</b>		
Merle Appelgate	President	2007
David Bacon	Vice President	2006
Allen Burt	Board Member	2006
Rick Landt	Board Member	2007
Kathy Beane	Board Member	2007
Linda Havelka	Board Member	2008
Jim Fleming	Board Member	2008

<b>Board of Education (After September 2006 election)</b>		
Merle Appelgate	President	2007
Linda Havelka	Vice President	2008
Rick Landt	Board Member	2007
Kathy Beane	Board Member	2007
Jim Fleming	Board Member	2008
Kevin Bovenmyer	Board Member	2009
Allen Burt	Board Member	2009

**School Officials**

Michael Ashton	Superintendent	2007
Deb Stahl	Business Manager and District Secretary/Treasurer	2007
Roger Schoell	Attorney	2007

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
GMG Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the GMG Community School District, Garwin, Iowa as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of GMG Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 27, 2008 on our consideration of GMG Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 35 through 36 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise GMG Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

February 27, 2008

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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GMG Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2007 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$3,626,904 in fiscal 2006 to \$3,900,955 in fiscal 2007, while General Fund expenditures increased from \$3,566,462 in fiscal 2006 to \$3,866,751 in fiscal 2007. This resulted in an increase in the District's General Fund balance from \$762,247 in fiscal 2006 to \$796,451 in fiscal 2007, a 4.49% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in local sources in fiscal 2007. The increase in expenditures was due primarily to an increase in the instruction function area.
- The District began receiving the Local Option Sales and Services Tax from all the resident counties beginning July 1, 2004. The Board is waiting to see the outcome of the state-wide tax before they make any major decisions.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of GMG Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report GMG Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which GMG Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

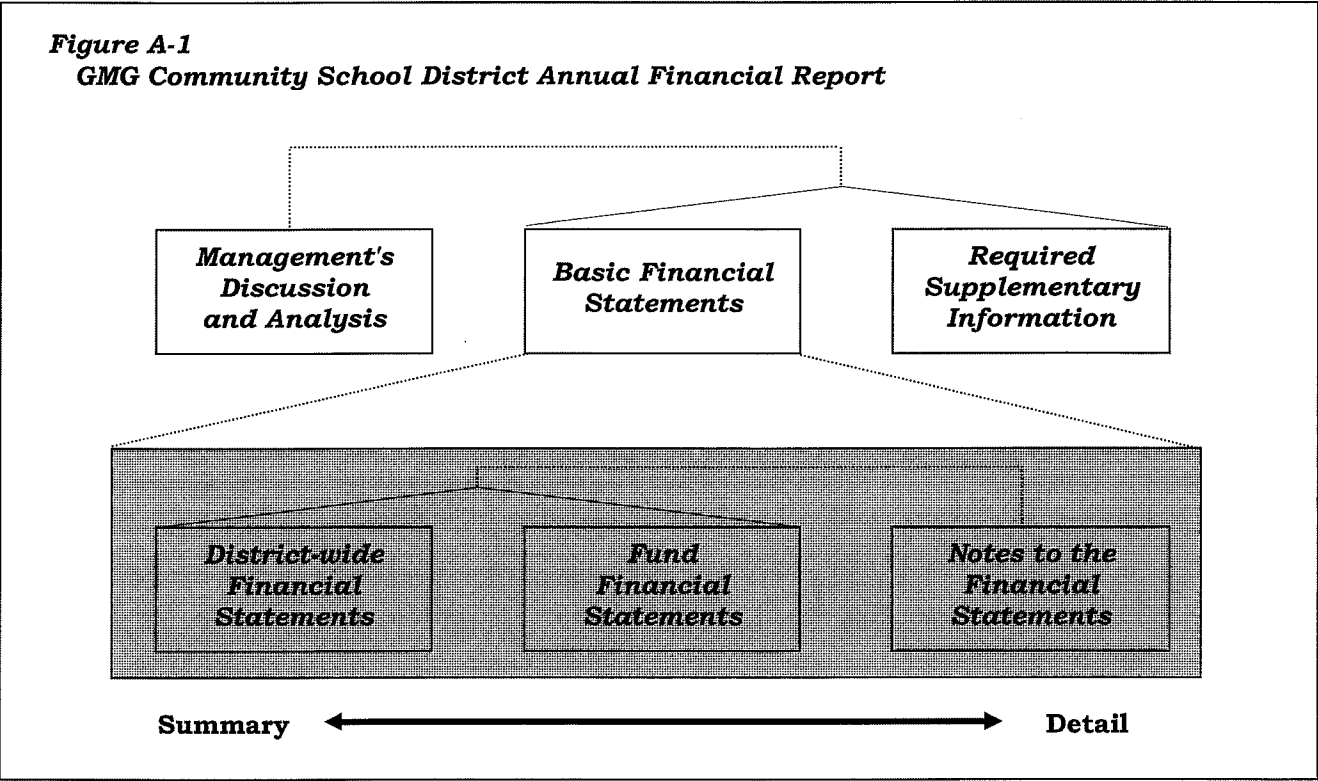


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

**Figure A-2**

**Major Features of the Government-Wide and Fund Financial Statements**

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.



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The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and the Internal Service Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise funds, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is a trustee, or fiduciary, for assets that belong to others. These funds include the Agency Fund.

Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 3,921,424	3,626,381	42,013	44,519	3,963,437	3,670,900	7.97%
Capital assets	4,052,157	4,054,877	60,003	70,307	4,112,160	4,125,184	-0.32%
Total assets	7,973,581	7,681,258	102,016	114,826	8,075,597	7,796,084	3.59%
Long-term obligations	3,003,095	2,934,941	0	0	3,003,095	2,934,941	2.32%
Other liabilities	2,622,800	2,644,711	13,246	13,334	2,636,046	2,658,045	-0.83%
Total liabilities	5,625,895	5,579,652	13,246	13,334	5,639,141	5,592,986	0.83%
Net assets:							
Invested in capital assets, net of related debt	1,051,532	1,120,372	60,003	70,307	1,111,535	1,190,679	-6.65%
Restricted	420,624	156,441	0	0	420,624	156,441	168.87%
Unrestricted	875,530	824,793	28,767	31,185	904,297	855,978	5.64%
Total net assets	\$ 2,347,686	2,101,606	88,770	101,492	2,436,456	2,203,098	10.59%

The District's combined net assets increased by 10.59%, or \$233,358, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the invested in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$264,183, or 168.87% over the prior year. The increase was primarily a result of the increase in the Capital Projects Fund balance.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$48,319, or 5.64%. This increase is due to the increase in net assets in the General Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to June 30, 2006.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 943,802	840,485	104,382	94,583	1,048,184	935,068	12.10%
Operating grants and contributions and restricted interest	461,026	432,884	96,645	92,440	557,671	525,324	6.16%
Capital grants and contributions and restricted interest	0	100,000	0	0	0	100,000	-100.00%
General revenues:							
Property tax	1,700,213	1,572,304	0	0	1,700,213	1,572,304	8.14%
Local option sales and services tax	219,367	205,953	0	0	219,367	205,953	6.51%
Unrestricted state grants	1,253,996	1,308,033	0	0	1,253,996	1,308,033	-4.13%
Other	112,709	69,462	126	154	112,835	69,616	62.08%
Total revenues	4,691,113	4,529,121	201,153	187,177	4,892,266	4,716,298	3.73%
Program expenses:							
Governmental activities:							
Instructional	2,749,261	2,604,216	0	0	2,749,261	2,604,216	5.57%
Support services	1,234,818	1,036,163	0	0	1,234,818	1,036,163	19.17%
Non-instructional programs	6,407	2,400	213,875	205,604	220,282	208,004	5.90%
Other expenses	454,547	555,002	0	0	454,547	555,002	-18.10%
Total expenses	4,445,033	4,197,781	213,875	205,604	4,658,908	4,403,385	5.80%
Changes in net assets	246,080	331,340	(12,722)	(18,427)	233,358	312,913	-25.42%
Beginning net assets	2,101,606	1,770,266	101,492	119,919	2,203,098	1,890,185	16.55%
Ending net assets	\$ 2,347,686	2,101,606	88,770	101,492	2,436,456	2,203,098	10.59%

Property tax and unrestricted state grants account for 63% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 90% of the total expenses.

Changes in revenues will be as a result of changes in student participation, whether in the regular, special or extracurricular programs. Fluctuations in basic enrollment will significantly impact the state revenues, as well as property tax revenues, keeping in mind that neither source of funding will be ever fully realized with current law and funding structure as set by the legislature.

The most significant fluctuation in expenditure levels will be caused by increased salary and benefit obligations, in large part resulting from collective bargaining agreements. With a declining enrollment comes lesser ability to fund various programs required by the state and constant evaluation of staffing needs becomes a priority. Even with certain staff reductions there may still be an increase in expenditures due to the salary and benefit requirements.

The District makes a continual effort to be a good steward of public funds and maintains a philosophy of providing the best education possible, exploring every avenue available to fund the programs, while making certain to keep watch for services that could be merged with other programs.

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## Governmental Activities

Revenues for governmental activities were \$4,691,113 and expenses were \$4,445,033.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 2,749,261	2,604,216	5.57%	1,462,875	1,446,278	1.15%
Support services	1,234,818	1,036,163	19.17%	1,233,647	1,035,684	19.11%
Non-instructional programs	6,407	2,400	166.96%	6,407	2,400	166.96%
Other expenses	454,547	555,002	-18.10%	337,276	340,050	-0.82%
Totals	<u>\$ 4,445,033</u>	<u>4,197,781</u>	<u>5.89%</u>	<u>3,040,205</u>	<u>2,824,412</u>	<u>7.64%</u>

- The cost financed by users of the District's programs was \$943,802.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$461,026.
- The net cost of governmental activities was financed with \$1,700,213 in property tax, \$219,367 in local option sales and services tax, \$1,253,996 in unrestricted state grants, \$73,819 in interest income and \$38,890 in other general miscellaneous sources.

## Business-Type Activities

Revenues of the District's business-type activities were \$201,153 and expenses were \$213,875. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## INDIVIDUAL FUND ANALYSIS

As previously noted, the GMG Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,216,078, compared to last year's ending fund balances of \$898,365. However, the primary reason for the increase in combined fund balances in fiscal 2007 is due to the District issuing \$275,000 in revenue bonds during the year.

## Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. Increase in local sources during the year resulted in an increase in revenues. The increase in revenues was partially offset by the District's increase in General Fund expenditures, but the net result was an increase in fund balance from \$762,247 to \$796,451.
- The Capital Projects Fund balance increased from a deficit \$32,660 fiscal 2006 to a positive balance of \$256,416 in fiscal 2007. This increase in fund balance was due to the District issuing \$275,000 in revenue bonds during the year.

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## Proprietary Fund Highlights

The Proprietary Fund net assets decreased from \$101,492 at June 30, 2006 to \$88,770 at June 30, 2007, representing a decrease of 12.5%. For fiscal 2007, the District had an increase in expenditures.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$264,988 more than budgeted revenues, a variance of 5.7%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the support services and non-instructional programs functions.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2007, the District had invested \$4,112,160, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of less than 1% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$145,860.

The original cost of the District's capital assets was \$7,658,736. Governmental funds account for \$7,529,896 with the remainder of \$128,840 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress was completed during the year and is shown as an addition in the building category.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 54,500	54,500	0	0	54,500	54,500	0.00%
Construction in progress	0	309,769	0	0	0	309,769	-100.00%
Buildings	3,875,514	3,542,032	0	0	3,875,514	3,542,032	9.41%
Machinery and equipment	122,143	148,576	60,003	70,307	182,146	218,883	-16.78%
Total	\$ 4,052,157	4,054,877	60,003	70,307	4,112,160	4,125,184	-0.32%

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## Long-Term Debt

At June 30, 2007, the District had \$3,003,095 in general obligation and other long-term debt outstanding. This represents an increase of 2.3% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding general obligation bonds of \$2,760,000 at June 30, 2007.

The District issued \$275,000 during the year ended June 30, 2007 of which \$240,625 is remaining.

The District had total outstanding Early Retirement payable from the Special Revenue, Management Fund of \$2,470 at June 30, 2007.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2007	2006	2006-07
General obligation bonds	\$ 2,760,000	2,930,000	-5.8%
Revenue bonds	240,625	0	100.0%
Early Retirement	2,470	4,941	-50.0%
Totals	<u>\$ 3,003,095</u>	<u>2,934,941</u>	<u>2.3%</u>

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The SILO Tax helps to keep the District's facilities in good shape and so we can continue to purchase new and safe vehicles for our students.
- With the budget guarantee being phased out, if we continue to have a decline in enrollment we will be forced to trim costs even more.
- Although the District has experienced steady enrollment the past several years, enrollment numbers decreased in October 2007.
- Health insurance continues to be a very costly item to the District. We have been very fortunate to be considered in the low bracket for claims. This is something that is unpredictable. The skyrocketing cost of health care and the insurance to cover the cost will soon be unattainable by many.
- Unfunded mandates are stretching limits of not only the financial health of the District, but also the human resources aspect of the District, "No Child Left Behind", "Student Achievement and Teacher Quality Act", and "GASB 34" to name a few.
- The School District has completed its fifth year of participation in the Lighthouse Study. The District has seen increased student achievement and continues to focus on quality staff development.

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## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Debra Stahl, Business Manager, GMG Community School District, 306 Park Street, Garwin, Iowa, 50632.

## BASIC FINANCIAL STATEMENTS



GMG COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and pooled investments			
ISCAP(Note 4)	\$ 641,635	0	641,635
Other	1,419,141	29,932	1,449,073
Receivables:			
Property tax:			
Delinquent	23,632	0	23,632
Succeeding year	1,577,107	0	1,577,107
Income surtax	93,752	0	93,752
Accrued ISCAP interest (Note 4)	40,712	0	40,712
Due from other governments	125,445	0	125,445
Inventories	0	12,081	12,081
Capital assets, net of accumulated depreciation (Note 5)	4,052,157	60,003	4,112,160
<b>Total Assets</b>	<b>7,973,581</b>	<b>102,016</b>	<b>8,075,597</b>
<b>Liabilities</b>			
Salaries and benefits payable	354,638	12,838	367,476
ISCAP warrants payable (Note 4)	643,000	0	643,000
ISCAP accrued interest payable (Note 4)	33,588	0	33,588
ISCAP unamortized premium	3,261	0	3,261
Interest payable	11,206	0	11,206
Deferred revenue:			
Succeeding year property tax	1,577,107	0	1,577,107
Unearned revenue	0	408	408
Long-term liabilities (Note 6):			
Portion due within one year:			
General obligation bonds payable	175,000	0	175,000
Revenue bonds payable	34,375	0	34,375
Early retirement payable	2,470	0	2,470
Portion due after one year:			
General obligation bonds payable	2,585,000	0	2,585,000
Revenue bonds payable	206,250	0	206,250
<b>Total Liabilities</b>	<b>5,625,895</b>	<b>13,246</b>	<b>5,639,141</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	1,051,532	60,003	1,111,535
Restricted for:			
Additional teacher contract day	275	0	275
Market factor	3,192	0	3,192
Management levy	77,036	0	77,036
Physical plant and equipment levy	58,130	0	58,130
Capital projects	256,416	0	256,416
Debt service	7,887	0	7,887
Other special revenue funds	17,688	0	17,688
Unrestricted	875,530	28,767	904,297
<b>Total Net Assets</b>	<b>\$ 2,347,686</b>	<b>88,770</b>	<b>2,436,456</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

GMG COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities
Functions/Programs					
Governmental activities:					
Instruction:					
Regular instruction	\$ 1,765,914	643,166	322,341	(800,407)	0
Special instruction	589,438	189,617	20,243	(379,578)	0
Other instruction	393,909	111,019	0	(282,890)	0
	<u>2,749,261</u>	<u>943,802</u>	<u>342,584</u>	<u>(1,462,875)</u>	<u>0</u>
Support services:					
Instructional staff services	135,500	0	0	(135,500)	0
Administration services	485,684	0	0	(485,684)	0
Operation and maintenance of plant services	362,544	0	0	(362,544)	0
Transportation services	251,090	0	1,171	(249,919)	0
	<u>1,234,818</u>	<u>0</u>	<u>1,171</u>	<u>(1,233,647)</u>	<u>0</u>
Non-instructional programs:					
Food service operations	6,407	0	0	(6,407)	0
Other expenditures:					
Facilities and acquisitions	103,853	0	0	(103,853)	0
Long-term debt interest	142,513	0	0	(142,513)	0
AEA flowthrough	117,271	0	117,271	0	0
Depreciation (unallocated)*	90,910	0	0	(90,910)	0
	<u>454,547</u>	<u>0</u>	<u>117,271</u>	<u>(337,276)</u>	<u>0</u>
Total governmental activities	4,445,033	943,802	461,026	(3,040,205)	0
Business-Type activities:					
Non-instructional programs:					
Nutrition services	213,875	104,382	96,645	0	(12,848)
Total business-type activities	<u>213,875</u>	<u>104,382</u>	<u>96,645</u>	<u>0</u>	<u>(12,848)</u>
Total	\$ 4,658,908	1,048,184	557,671	(3,040,205)	(12,848)
General Revenues:					
Local tax for:					
General purposes				\$ 1,282,904	0
Debt Service				313,699	0
Capital outlay				103,610	0
Local option sales and services tax				219,367	0
Unrestricted state grants				1,253,996	0
Unrestricted investment earnings				73,819	126
Miscellaneous				38,890	0
Total general revenues				<u>3,286,285</u>	<u>126</u>
Change in net assets				246,080	(12,722)
Net assets beginning of year				<u>2,101,606</u>	<u>101,492</u>
Net assets end of year				<u>\$ 2,347,686</u>	<u>88,770</u>

\* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

GMG COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>Assets</b>				
Cash and pooled investments:				
ISCAP(Note 4)	\$ 641,635	0	0	641,635
Other	1,060,752	201,703	156,686	1,419,141
Receivables:				
Property tax:				
Delinquent	17,107	0	6,525	23,632
Succeeding year	1,100,211	0	476,896	1,577,107
Income surtax	93,752	0	0	93,752
Accrued ISCAP interest(Note 4)	40,712	0	0	40,712
Due from other governments	70,732	54,713	0	125,445
<b>Total Assets</b>	<b>\$ 3,024,901</b>	<b>256,416</b>	<b>640,107</b>	<b>3,921,424</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Salaries and benefits payable	\$ 354,638	0	0	354,638
ISCAP warrants payable(Note 4)	643,000	0	0	643,000
ISCAP accrued interest payable(Note 4)	33,588	0	0	33,588
ISCAP unamortized premium	3,261	0	0	3,261
Deferred revenue:				
Succeeding year property tax	1,100,211	0	476,896	1,577,107
Income surtax	93,752	0	0	93,752
Total liabilities	2,228,450	0	476,896	2,705,346
Fund balances:				
Reserved for:				
Additional teacher contract day	275	0	0	275
Market factor	3,192	0	0	3,192
Debt service	0	0	7,887	7,887
Unreserved	792,984	256,416	155,324	1,204,724
Total fund balances	796,451	256,416	163,211	1,216,078
<b>Total Liabilities and Fund Balances</b>	<b>\$ 3,024,901</b>	<b>256,416</b>	<b>640,107</b>	<b>3,921,424</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

GMG COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2007

<b>Total fund balances of governmental funds (page 16)</b>	\$ 1,216,078
<b><i>Amounts reported for governmental activities in the statement of net assets are different because:</i></b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.	4,052,157
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	93,752
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(11,206)
Long-term liabilities, including general obligation bonds, revenue bonds and early retirement, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(3,003,095)</u>
<b>Net assets of governmental activites (page 14)</b>	<u><u>\$ 2,347,686</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

GMG COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>				
Local sources:				
Local tax	\$ 1,259,319	219,367	442,348	1,921,034
Tuition	823,345	0	0	823,345
Other	103,269	2,713	127,184	233,166
State sources	1,598,542	0	0	1,598,542
Federal sources	116,480	0	0	116,480
Total revenues	3,900,955	222,080	569,532	4,692,567
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular instruction	1,749,903	0	15,025	1,764,928
Special instruction	589,438	0	0	589,438
Other instruction	273,285	0	119,981	393,266
	2,612,626	0	135,006	2,747,632
Support services:				
Instructional staff services	135,500	0	0	135,500
Administration services	486,484	0	0	486,484
Operation and maintenance of plant services	295,703	0	66,841	362,544
Transportation services	212,760	0	15,197	227,957
	1,130,447	0	82,038	1,212,485
Non-instructional programs:				
Community service operations	6,407	0	0	6,407
Other expenditures:				
Facilities acquisitions	0	163,629	54,847	218,476
Long-term debt:				
Principal	0	0	204,375	204,375
Interest and fiscal charges	0	0	143,208	143,208
AEA flowthrough	117,271	0	0	117,271
	117,271	163,629	402,430	683,330
Total expenditures	3,866,751	163,629	619,474	4,649,854
Excess(deficiency) of revenues over(under) expenditures	34,204	58,451	(49,942)	42,713
Other financing sources(uses):				
Transfer in	0	0	44,375	44,375
Transfer out	0	(44,375)	0	(44,375)
Revenue bond issued	0	275,000	0	275,000
Total other financing sources(uses)	0	230,625	44,375	275,000
Net change in fund balances	34,204	289,076	(5,567)	317,713
Fund balance beginning of year	762,247	(32,660)	168,778	898,365
Fund balance end of year	\$ 796,451	256,416	163,211	1,216,078

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

GMG COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 JUNE 30, 2007

Net change in fund balances - total governmental funds (page 18) \$ 317,713

*Amounts reported for governmental activities in the  
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 132,836	
Depreciation expense	<u>(135,556)</u>	(2,720)

Proceed from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current years issues exceeded repayments, as follows:

Issued	(275,000)	
Repaid	<u>204,375</u>	(70,625)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. (1,454)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 695

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement		<u>2,471</u>
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Changes in net assets of governmental activities (page 15) \$ 246,080

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

GMG COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2007

	<u>School</u> <u>Nutrition</u>
<b>Assets</b>	
Cash and pooled investments	\$ 29,932
Inventories	12,081
Capital assets, net of accumulated # depreciation (Note 5)	<u>60,003</u>
<b>Total Assets</b>	<u>102,016</u>
<b>Liabilities</b>	
Salaries and benefits payable	12,838
Unearned revenue	<u>408</u>
<b>Total Liabilities</b>	<u>13,246</u>
<b>Net Assets</b>	
Invested in capital assets	60,003
Unrestricted	<u>28,767</u>
<b>Total Net Assets</b>	<u>\$ 88,770</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

GMG COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 104,382
TOTAL OPERATING REVENUES	<u>104,382</u>
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	67,683
Benefits	27,225
Services	1,638
Supplies	106,772
Other	253
Depreciation	10,304
TOTAL OPERATING EXPENSES	<u>213,875</u>
OPERATING LOSS	<u>(109,493)</u>
NON-OPERATING REVENUES:	
State sources	2,805
Federal sources	93,840
Interest on investments	126
TOTAL NON-OPERATING REVENUES	<u>96,771</u>
Change in net assets	(12,722)
Net assets beginning of year	<u>101,492</u>
Net assets end of year	<u><u>\$ 88,770</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.



GMG COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 98,867
Cash received from miscellaneous	4,701
Cash payments to employees for services	(94,182)
Cash payments to suppliers for goods or services	(94,116)
Net cash used in operating activities	<u>(84,730)</u>
Cash flows from non-capital financing activities:	
State grants received	2,805
Federal grants received	80,090
Net cash provided by non-capital financing activities	<u>82,895</u>
Cash flows from investing activities:	
Interest on investments	126
Net cash provided by investing activities	<u>126</u>
Net decrease in cash and cash equivalents	(1,709)
Cash and cash equivalents at beginning of year	<u>31,641</u>
Cash and cash equivalents at end of year	<u>\$ 29,932</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (109,493)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	13,750
Depreciation	10,304
Decrease in inventories	797
Increase in salaries and benefits payable	726
Decrease in unearned revenue	(814)
Net cash used in operating activities	<u>\$ (84,730)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 29,932</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received Federal commodities valued at \$13,750.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

GMG COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2007

	<u>Agency</u>
<b>Assets</b>	
Cash and pooled investments	\$ 1,861
<b>Total Assets</b>	<u>\$ 1,861</u>
 <b>Liabilities</b>	
Due to other groups	\$ 1,861
<b>Total Liabilities</b>	<u>\$ 1,861</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

GMG COMMUNITY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007

(1) **Summary of Significant Accounting Policies**

The GMG Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Green Mountain and Garwin, Iowa, and the predominate agricultural territory in Marshall and Tama Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, GMG Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The GMG Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Marshall and Tama Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The District reports the following proprietary funds:

The District's proprietary funds are the School Nutrition Fund. The Nutrition fund is used to account for the food service operations of the District.

The District also reports a Fiduciary Fund which focus's on net assets and changes in net assets. The District's Fiduciary Fund includes the following:

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board

Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and

reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,000
Buildings	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been

recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues are monies collected for student fees and lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the balance sheet in the Enterprise, School Nutrition Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, expenditures in the support services and non-instructional programs functions exceeded the amounts budgeted.

### (2) **Cash and Pooled Investments**

The District's deposits at June 30, 2007 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint



investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2007.

**(3) Transfers**

The detail of transfers for the year ended June 30, 2007 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
PPEL	Capital Projects	\$ 10,000
Debt Service	Capital Projects	<u>34,375</u>
Total		<u>\$ 44,375</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

**(4) Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Accrued Warrants Payable	Accrued Interest Payable
2006-07A	6/28/2006	6/28/2007	\$ 0	32,523	0	26,628
2006-07B	1/26/2007	1/25/2008	359,082	8,105	360,000	6,888
2007-08A	6/28/2007	6/27/2008	282,553	84	283,000	72
Total			<u>\$ 641,635</u>	<u>40,712</u>	<u>643,000</u>	<u>33,588</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date that the warrant proceeds may be used in

an amount equal to 25% of the warrant amount. There was no advance activity during the year ended June 30, 2007.

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07A	3.500%	5.676%
2006-07B	4.500%	5.315%
2007-08A	4.500%	5.455%

#### (5) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 54,500	0	0	54,500
Construction in progress	309,769	0	309,769	0
Total capital assets not being depreciated	364,269	0	309,769	54,500
Capital assets being depreciated:				
Buildings	6,091,075	424,392	0	6,515,467
Machinery and equipment	986,182	18,213	44,466	959,929
Total capital assets being depreciated	7,077,257	442,605	44,466	7,475,396
Less accumulated depreciation for:				
Buildings	2,549,043	90,910	0	2,639,953
Machinery and equipment	837,606	44,646	44,466	837,786
Total accumulated depreciation	3,386,649	135,556	44,466	3,477,739
Total capital assets being depreciated, net	3,690,608	307,049	0	3,997,657
Governmental activities capital assets, net	\$ 4,054,877	307,049	309,769	4,052,157
Business-type activities:				
Machinery and equipment	\$ 128,840	0	0	128,840
Less accumulated depreciation	58,533	10,304	0	68,837
Business-type activities capital assets, net	\$ 70,307	(10,304)	0	60,003

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular	\$	5,674
Other		643

Support services:

Administration		200
Transportation		38,129
		<u>44,646</u>

Unallocated depreciation		<u>90,910</u>
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Total governmental activities depreciation expense	\$	<u>135,556</u>
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Business-type activities:

Food services	\$	10,304
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Total business-type activities depreciation expense	\$	<u>10,304</u>
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**(6) Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 2,930,000	0	170,000	2,760,000	175,000
Revenue Bonds	0	275,000	34,375	240,625	34,375
Early Retirement	4,941	15,025	17,496	2,470	2,470
Total	\$ 2,934,941	290,025	221,871	3,003,095	211,845

Revenue Bonds Payable

On September 11, 2006, the District issued revenue bonds for energy improvements. The revenue bond bears no interest for the duration of the repayments. The revenue bonds will be repaid using Local Option Sales and Services Tax collected in the Capital Projects Fund. Details of the District June 30, 2007 revenue bond indebtedness are as follows:

Bond issue dated September 11, 2006		
Year Ending June 30,	Principal	
2008	\$	34,375
2009		34,375
2010		34,375
2011		34,375
2012		34,375
2013		34,375
2014		34,375
Total	\$	240,625

#### General Obligation Bonds Payable

Details of the District's June 30, 2007 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond issue dated July 1, 1999			
	Interest Rates	Principal	Interest	Total
2008	4.50 %	\$ 175,000	134,476	309,476
2009	4.65	185,000	126,515	311,515
2010	4.70	195,000	117,939	312,939
2011	4.75	205,000	108,748	313,748
2012	4.80	215,000	99,010	314,010
2013	4.85	220,000	88,690	308,690
2014	4.85	230,000	78,020	308,020
2015	4.90	245,000	66,750	311,750
2016	5.00	255,000	54,500	309,500
2017	5.00	265,000	41,750	306,750
2018	5.00	280,000	28,500	308,500
2019	5.00	290,000	14,500	304,500
Total		\$ 2,760,000	959,398	3,719,398

#### Early Retirement

The District offers a voluntary early retirement plan to its Certified employees, classified employees and administrative staff. Eligible employees must have completed seventeen or fifteen years of service to the District in order to qualify for supplemental benefits. Employees desiring to elect early retirement under this program must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is on the "per diem" basis based on the current contract at the time of retirement. "Per diem" is defined as per day pay based upon contract days and annual salary. Early retirement benefits paid during the year ended June 30, 2007 totaled \$17,496. A liability has been recorded in the District's commitment to fund non-current early retirement.

**(7) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$128,790, \$126,503, and \$124,076 respectively, equal to the required contributions for each year.

**(8) Risk Management**

GMG Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(9) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$117,271 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(10) Budget Overexpenditure**

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2007, expenditures in the support services and non-instructional programs functions exceeded the amounts budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

GMG COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2007

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 2,977,545	104,508	3,082,053	2,859,378	2,859,378	222,675
State sources	1,598,542	2,805	1,601,347	1,566,354	1,566,354	34,993
Federal sources	116,480	93,840	210,320	203,000	203,000	7,320
Total revenues	4,692,567	201,153	4,893,720	4,628,732	4,628,732	264,988
Expenditures:						
Instruction	2,747,632	0	2,747,632	2,807,000	2,807,000	59,368
Support services	1,212,485	0	1,212,485	1,089,000	1,089,000	(123,485)
Non-instructional programs	6,407	213,875	220,282	196,000	196,000	(24,282)
Other expenditures	683,330	0	683,330	691,310	691,310	7,980
Total expenditures	4,649,854	213,875	4,863,729	4,783,310	4,783,310	(80,419)
Excess(deficiency) of revenues over(under) expenditures	42,713	(12,722)	29,991	(154,578)	(154,578)	(184,569)
Other financing sources, net	275,000	0	275,000	0	0	(275,000)
Excess(deficiency) of revenues and other financing sources over(under) expenditures	317,713	(12,722)	304,991	(154,578)	(154,578)	(459,569)
Balance beginning of year	898,365	101,492	999,857	1,036,340	1,036,340	(36,483)
Balance end of year	\$ 1,216,078	88,770	1,304,848	881,762	881,762	423,086

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

GMG COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2007, expenditures in the support service and non-instructional programs functions exceeded the amounts budgeted.



OTHER SUPPLEMENTARY INFORMATION

GMG COMMUNITY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2007

	Special Revenue Funds					Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
<b>Assets</b>						
Cash and pooled investments	\$ 79,137	17,688	56,602	153,427	3,259	156,686
Receivables:						
Property tax:						
Current year delinquent	369	0	1,528	1,897	4,628	6,525
Succeeding year	65,000	0	102,018	167,018	309,878	476,896
<b>Total Assets</b>	<b>\$ 144,506</b>	<b>17,688</b>	<b>160,148</b>	<b>322,342</b>	<b>317,765</b>	<b>640,107</b>
<b>Liabilities and Fund Balances</b>						
Liabilities:						
Deferred revenue:						
Succeeding year property tax	\$ 65,000	0	102,018	167,018	309,878	476,896
Fund balances:						
Reserved for:						
Debt Service	0	0	0	0	7,887	7,887
Unreserved	79,506	17,688	58,130	155,324	0	155,324
Total fund balances	79,506	17,688	58,130	155,324	7,887	163,211
<b>Total Liabilities and Fund Balances</b>	<b>\$ 144,506</b>	<b>17,688</b>	<b>160,148</b>	<b>322,342</b>	<b>317,765</b>	<b>640,107</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

GMG COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2007

	Special Revenue Funds					Total
	Manage-	Physical	Total			Other
	ment	Plant and	Special	Debt		Nonmajor
	Levy	Student	Equipment	Revenue	Service	Governmental
		Activity	Levy	Funds		Funds
REVENUES:						
Local sources:						
Local tax	\$ 25,039	0	103,610	128,649	313,699	442,348
Other	13,906	111,178	2,100	127,184	0	127,184
TOTAL REVENUES	38,945	111,178	105,710	255,833	313,699	569,532
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	15,025	0	0	15,025	0	15,025
Other instruction	0	119,981	0	119,981	0	119,981
Support services:						
Operation and maintenance						
of plant services	66,841	0	0	66,841	0	66,841
Student transportation	201	0	14,996	15,197	0	15,197
Other expenditures:						
Facilities acquisitions	0	0	54,847	54,847	0	54,847
Long-term debt:						
Principal	0	0	0	0	204,375	204,375
Interest and fiscal charges	0	0	0	0	143,208	143,208
TOTAL EXPENDITURES	82,067	119,981	69,843	271,891	347,583	619,474
EXCESS (DEFICIENCY) OF REVENUES						
OVER (UNDER) EXPENDITURES	(43,122)	(8,803)	35,867	(16,058)	(33,884)	(49,942)
OTHER FINANCING SOURCES:						
Transfers in	0	0	10,000	10,000	34,375	44,375
EXCESS (DEFICIENCY) OF REVENUES AND OTHER						
FINANCING SOURCES OVER (UNDER) EXPENDITURES	(43,122)	(8,803)	45,867	(6,058)	491	(5,567)
FUND BALANCE BEGINNING OF YEAR	122,628	26,491	12,263	161,382	7,396	168,778
FUND BALANCE END OF YEAR	\$ 79,506	17,688	58,130	155,324	7,887	163,211

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

GMG COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 383	1,083	340	1,126
Vocal	1,149	0	0	1,149
Band	187	0	80	107
HS Cheerleading	16	1,751	2,858	(1,091)
Future Teacher	35	0	0	35
Spanish Club	41	847	888	0
Class of 2007	1,080	420	1,500	0
Class of 2008	1,715	9,558	9,603	1,670
Class of 2009	786	888	10	1,664
Class of 2010	0	401	4	397
Interest	0	158	209	(51)
HS Student Council	769	15,341	15,830	280
JH Student Council	215	375	0	590
National Honor Society	558	1,945	1,509	994
Yearbook	(2,746)	8,161	15,256	(9,841)
Athletics	14,528	58,362	57,285	15,605
Dance Team	2,321	6,772	6,226	2,867
HS SADD	104	3,212	2,821	495
Volleyball	1,458	150	0	1,608
Elementary	3,817	1,754	5,562	9
Elementary Student Council	75	0	0	75
Total	\$ 26,491	111,178	119,981	17,688

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

GMG COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
 AGENCY FUND  
 YEAR ENDED JUNE 30, 2007

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
<b>Assets</b>				
Cash and pooled investments	\$ 1,182	9,091	8,412	1,861
<b>Total Assets</b>	<u>\$ 1,182</u>	<u>9,091</u>	<u>8,412</u>	<u>1,861</u>
<b>Liabilities</b>				
Due to other groups	\$ 1,182	9,217	8,412	1,861
<b>Total Liabilities</b>	<u>\$ 1,182</u>	<u>9,217</u>	<u>8,412</u>	<u>1,861</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

GMG COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FOUR YEARS

Modified Accrual Basis				
Years Ended June 30,				
	2007	2006	2005	2004
Revenues:				
Local sources:				
Local tax	\$ 1,921,034	1,714,967	1,716,960	1,639,511
Tuition	823,345	715,953	560,856	514,681
Other	233,166	293,939	159,301	178,438
State sources	1,598,542	1,664,396	1,560,545	1,447,237
Federal sources	116,480	120,997	124,088	126,711
Total	<u>\$ 4,692,567</u>	<u>4,510,252</u>	<u>4,121,750</u>	<u>3,906,578</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 1,764,928	1,645,086	1,619,810	1,546,023
Special instruction	589,438	339,103	481,758	456,354
Other instruction	393,266	607,081	363,209	333,746
Support services:				
Instructional staff services	135,500	105,812	108,056	128,468
Administration services	486,484	452,913	426,146	420,295
Operation and maintenance of plant services	362,544	306,398	304,610	299,448
Transportation services	227,957	229,965	183,904	147,865
Other support services	0	0	8,006	11,193
Non-instructional programs	6,407	2,400	0	0
Other expenditures:				
Facilities acquisitions	218,476	515,390	211,660	170,629
Long-term debt:				
Principal	204,375	160,000	150,000	145,000
Interest	143,208	152,807	161,808	170,408
AEA flow-through	117,271	114,952	112,048	110,391
Total	<u>\$ 4,649,854</u>	<u>4,631,907</u>	<u>4,131,015</u>	<u>3,939,820</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
117 West 3rd Street North, Newton, Iowa 50208-3040  
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and  
on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Education of the  
GMG Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of GMG Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 27, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered GMG Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of GMG Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GMG Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects GMG Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of GMG Community School District's financial statements that is more than inconsequential will not be prevented or detected by GMG Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by GMG Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 is a material weakness.

#### Compliance and Other Matters

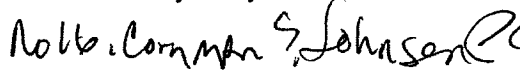
As part of obtaining reasonable assurance about whether GMG Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

GMG Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit GMG Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of GMG Community School District and other parties to whom GMG Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of GMG Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

February 27, 2008



GMG COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

- I-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted in the Student Activity Fund that the cash receipts and bank deposits were done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

- I-B-07 Farmland - We noted during the audit that the district owns farmland, which was donated to them. The farmland is currently rented and maintained in an agency fund on the District's books. The farmland is not located within the geographical area of the school district. The proceeds from the farmland is used for scholarships.

Recommendation - The intent of the donation must be considered. If the donor gave the land as a gift to be used as scholarships, the land should be sold and invested in an allowable investment with the proceeds to be used for scholarships. If the donation was not specified for its use, it would appear appropriate to place the proceeds in the General Fund.

Response - We do not intend to sell the farmland.

Conclusion - Response acknowledged. The District should consult with their cognizant agent, Department of Education for a declaratory ruling with regard to this matter.

- I-C-07 Supporting Documents for Payments to Officials/Entry Fees - Payments made to officials from the Student Activity fund do not have supporting documentation. Payments made for entry fees from the Student Activity Fund do not have supporting documentation. Officials and entry fees are being paid from a listing.

Recommendation - The copy of the contract made for each official should be used as the support for payment. Original source documentation from the District hosting the event should be made available for entry fees as support for payment. The District should review procedures.

Response - We are working on improving internal controls and have access to all the coaches contracts to use for support if we question any payment made to an official.

Conclusion - Response acknowledged. The source documents should be preserved by the Board Secretary per Chapter 291.6 of the Code of Iowa.

I-D-07 Gate Admissions - It was noted that the District utilizes pre-numbered tickets for event admissions and a reconciliation is performed after the event. However, through discussion with personnel, it was discovered that the ticket takers are not counting the funds before turning the money over for depositing. In addition it was noted that the reconciliation is not being signed off by the ticket takers after the event. This procedure significantly impacts the intended controls of using the pre-numbered tickets.

Recommendation - The internal control of the District utilizing pre-numbered tickets is deteriorated by tearing off the number needed to reconcile to the cash collected. The District should have internal control procedures established for handling cash for all activity events, including athletic events and communicate the policies and procedures to individuals involved. The Board would of course, approve any policies and the District's business office should be involved in developing the detailed procedures. At a minimum these procedures should include:

- a. Cash or change boxes should be established with a specified amount.
- b. The District should use pre-numbered tickets.
- c. Two or more individuals should be involved in the cash collection/ticket sales process. In addition to cash collection/ticket sales procedures, the individuals should be instructed to not leave the cash/change boxes unattended under any circumstances.
- d. At the end of the event, cash should be counted and reconciled (by two or more individuals) to sales/pre-numbered tickets sold including the amount of the beginning cash.
- e. To reconcile, the next unsold ticket number less the beginning ticket number determines the number of tickets sold. This number times the price per ticket equals total sales. Total sales compared to total collected should reconcile. Variances, if any should be minimal.
- f. A reconciliation form should be completed and signed off by the individuals responsible for counting and reconciling the cash.
- g. The cash and change box should be turned into the Athletic Director (AD) or designee responsible for the "accounting" function at the event.
- h. The AD or designee should be required to take the cash collections to the night depository at the bank or at a minimum, lock the cash collections in the District's vault or other secure location at the District's office for deposit on the next working day. District procedures should prohibit individuals from taking cash collections home.
- i. A pre-numbered receipt should be issued by the Business Office the next working day in the amount of the confirmed deposit.
- j. Administrative personnel should periodically review/test the process to ensure procedures are working as prescribed.

Response - We now have internal control procedures in place. The money is now counted by more than one person.

Conclusion - Response accepted.

I-E-07 Receipting Process - During the audit, it was noted in the Activity Fund that receipts were not being given to sponsors or students bringing money to the District's high school office. Sponsors drop off money on the Activity Fund secretary's desk to be counted and receipted with no supporting documentation or reconciliation sheets as to where the money came from. The sponsors should keep documentation of the individuals they received money from and turn this documentation into the office when they turn the money in. It appeared that deposits slips from the bank reconciled to what was receipted into the District's software system. But when asked for a pre-numbered receipt book to determine the composition and accuracy of the bank deposit, it was discovered that a pre-numbered receipt book was not being used.

Recommendation - The district actually maintains multiple layers of receipting from, sponsors, to the building office, to the central office. When sponsors or fundraising chairpersons submit money to the office for previously collected receipts, they should provide documentation of their receipts. This documentation should be used when reconciling deposits to receipts. The district should take necessary steps to require all sponsors to turn in collected money on a daily basis with a detailed receipts or another form of detailed documentation. This detailed documentation should at a minimum include the individual that the sponsor received the money from, the purpose, the fund/organization/club that needs to be credited, the date and amount.

The District should review its receipting process and implement the use of a pre-numbered receipt book. The receipt book is necessary to be able to trace the composition and accuracy of bank deposits as well as safeguarding the assets of the District.

Response - The District is working on better documentation.

Conclusion - Response accepted.

GMG COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Required Statutory Reporting

- II-A-07 Certified Budget - District expenditures for the year ended June 30, 2007, exceeded the certified budget amounts in the support services and non-instructional programs functions.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

- II-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-07 Business Transactions - No business transactions between the District and District officials or employees were noted.

- II-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

- II-G-07 Certified Enrollment - We noted that the number of students reported to the Iowa Department of Education on line 12 of the Certified Enrollment Certification Form for October 2006 was understated by 0.81 students.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will contact the Iowa Department of Education and the Department of Management.

Conclusion - Response accepted.

- II-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

- II-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

II-J-07 Financial Condition - The District had accounts in the Student Activity Fund with deficit balances at June 30, 2007.

Recommendation - The District should review purchase approval procedures for the Student Activity Fund and may wish to require additional approval before ordering goods or services from these accounts. The District should investigate alternatives to eliminate these deficit balances.

Response - We are monitoring the fund and are working to eliminate the deficit balances.

Conclusion - Response accepted.

II-K-07 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The District should obtain and retain an image of both the front and back of each cancelled check as required for record retention.

Response - The bank will be notified that we need images of the front and back of each cancelled check.

Conclusion - Response accepted.